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NAME:

(b)(6)

DR. COLLINS

## TEST #3C (ON-LINE SECTION ONLY)

TIME LIMIT: 75 MINUTES

TEST TIME WINDOW: WEDNESDAY, JUNE 28, 2017 (8:00AM) TO FRIDAY  
JUNE 30, 2017 (5:00PM)

(OPEN BOOK, ONE PAGE OF NOTES - 8 1/2 X 11)

Attach Notes Page to back of Test when submitted for gradeABSOLUTELY NO CELL PHONES OR BACKPACKS IN TESTING AREA!!!

Multiple Choice Questions: For each Multiple Choice question below select the most nearest answer from choices A – D. Properly write your selected answer in the blank beside the corresponding question. Each M/C question is worth 10 points each.

(10) A

1. A \$10,000 face value bond pays dividends of \$1,200 (12%/yr bond rate) at the end of each year. If the bond matures at 20 years, what is the approximate bond value at an interest rate of 11% per year, compounded annually?

- A. \$ 8,245  
B. \$ 9,300  
C. \$10,800  
D. \$12,820

$$P = 1200(P/A, 11\%, 20) + F(P/F, 11\%, 20)$$

$$(7.96333) \quad (0.12403)$$

$$V = 10,000 \\ r = 12\% \\ A = 1200 \\ n = 20$$

(10) D

2. Douglas wishes to purchase a \$1,000 bond from Jose who needs the money. There are 7 years remaining until the bond matures, and interest payments are made quarterly. Douglas decides to offer Jose \$850 for the bond because he wants to earn exactly 8% per year compounded quarterly on the investment. What is the "effective" annual bond rate of interest?

- A. 9.10%  
B. 5.28%  
C. 6.60%  
D. 1.30%

$$i_{\text{eff}} = \left(1 + \frac{r}{m}\right)^m - 1$$

$$V = 1000$$

$$850 = 1000(r)(P/A, 2\%, 28) + 1000(P/F, 2\%, 28)$$

$$(21.28127) \quad (0.57437)$$

$$r = 850$$

$$n = 28$$

$$i = 2\%$$

$$r = 0.012952$$

$$i_{\text{eff}} = \left(1 + \frac{0.012952}{4}\right)^4 - 1 = \underline{\underline{0.013015}}$$